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C O N F I D E N T I A L SECTION 01 OF 03 YEREVAN 000932

SIPDIS

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TAGS: [PGOV](#) [PREL](#) [EAID](#) [ELTN](#) [ECON](#) [TU](#) [AM](#)
SUBJECT: AMBASSADOR'S INTRODUCTORY COURTESY CALL ON
MINISTER OF TRANSPORT AND COMMUNICATION

Classified By: Ambassador Marie L. Yovanovitch. Reasons 1.4 (b/d)

SUMMARY

¶1. (C) During an introductory meeting November 10 with Minister of Transport and Communication Guren Sargsian, Sargsian expressed appreciation for USG assistance and cooperation on transportation projects and noted the value that the GOAM places on the MCC Compact. Ambassador applauded the GOAM's commitment to its infrastructure projects, but reiterated that the MCC assistance is conditioned on the GOAM demonstrating its commitment to good governance. The Minister noted that the first result of a reopened border with Turkey would be transportation links, and Ambassador asserted that current circumstances present an excellent opportunity for a resolution, with the USG ready assist this process. End Summary.

¶2. (C) Ambassador paid an introductory courtesy call November 10 on Minister of Transport and Communication Guren Sargsian. Sargsian is a member of the Armenian Revolutionary Federation (Dashnaktsutyun) party, which holds three ministerial posts, and was appointed to his position in April. Sargsian provided an overview of the Ministry's areas of activity, including transportation, road-building and communications. The Ministry also regulates the postal system. However, air transport, most broadcasting and telecommunications activity are regulated by independent authorities.

ROADBUILDING KEY TO ECONOMIC DEVELOPMENT

¶3. (C) While the Ministry is engaged in serious programs in all three areas, Sargsian indicated the top priority for his ministry is road-building, given its critical role in economic development. He outlined the three main road-building programs: 1) Those funded by the GOAM, mostly rehabilitation of interstate and "republican" roads; 2) those financed by loans from the Asian Development Bank (ADB), which in its first stage is concentrated primarily on rural roads; and 3) projects funded by the Millennium Challenge Corporation (MCC), which is also mostly rehabilitation of rural roads. The Ministry is negotiating with the World Bank to help fund those roads not financed by MCC or ADB. The GOAM is also in the process of negotiating major road projects to improve connections to Georgia and Iran.

¶4. (C) Sargsian indicated that the GOAM is pressing ahead with a new road from Yerevan to the seaport of Batumi on Georgia's Black Sea coast. This would not only make a second port more accessible to Armenia but would reduce the current 750 km distance by about 30 percent. (NOTE: The bulk of Armenia's goods trade now comes into the more northerly Georgian Black Sea port of Poti, travels by road or rail almost straight east to Tbilisi, and only then turns south to Yerevan. The proposed new road would be a far more direct connection, saving costs and also be more strategically secure, located far south of the conflict zones of South Ossetia and Abkhazia. ENDNOTE) This project had been

discussed during the September meeting of the Armenian and Georgian Presidents, and during a recent meeting of the Armenia-Georgia Economic Task Force. GoG officials indicated they expect to fund their part through assistance from the EU and USG they anticipate receiving for infrastructure rehabilitation following the August conflict with Russia. Sargsian expressed optimism about the prospect of a reopening of the border with Turkey, in which case this road could join the Black Sea Ring Corridor and give Armenia a more direct connection to the Black Sea. Sargsian believes that with an open border to Turkey, the first impacts will be seen in transportation, and longer-term in overall economic development.

THE FATE OF MCC

15. (C) Sargsian emphasized the importance of the MCC Compact, and while he understands the conditionality of the MCA-Armenia Program, he expressed hope that the program will be able to continue. Given the importance of the MCC road projects, the GOAM this year funded them directly in order to ensure their completion (Note: The GOAM appropriated roughly USD 17 million of its own funds to keep the MCA-Armenia road-building program functioning during the funding hiatus imposed after Armenia's badly flawed election and post-election political violence. If MCC funding does not ultimately come through, the cost to the GOAM of fully funding the current road construction contracts is approximately USD 62 million). The MCC projects are part of the GOAM's Action Plan--also known as the Lifeline Road Network--which foresees having a road linking each village to a major highway by 2012.

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16. (C) Ambassador noted that the USG is impressed that the GOAM continued to self-fund these projects pending resolution of MCC funding status. While the USG hopes to continue the program, Ambassador reminded Sargsian of its performance criteria, in particular with respect to democracy indicators.

Ambassador acknowledged the Minister's difficult position, given that the critical performance indicators fall outside his purview. The USG hopes to see the GOAM take some encouraging steps--notably with respect to resolving the cases of political detainees from the events of March 1--but has seen few thus far. Ambassador noted that the GOAM had recently established a new agency to monitor the news media, which is not usually an encouraging sign with respect to democracy indicators.

17. (C) With respect to USG concerns about whether the GOAM is prepared to maintain stable funding for maintenance of MCC-funded roads, Minister Sargsian noted that the GOAM has allocated about USD 70 million for maintenance of roads of interstate and republican significance (Note: The GOAM has already passed a law that identifies MCC-funded rehabilitated roads as having one of these designations. End Note). In December the GOAM will have completed a 24-kilometer stretch of road funded by MCC, and this should serve as a test project for both MCA-Armenia's ability to build a high-quality road and the GOAM's ability and commitment to proper standards of road maintenance. Sargsian said there are now many road-building companies in Armenia that employ modern construction technology and are ready to build to modern standards.

RAILROADS

18. (C) The only railroad route currently operating in Armenia runs from Yerevan to Tbilisi. The network has been operated through a concession by Russian Railways, overseen by the Ministry of Transport and Communication, since June 1. (Note: The Russian firm is currently under investigation by the Committee for the Protection of Economic Competition for possible monopolistic practices with regard to setting of freight tariffs. End Note). The company has committed to

invest about USD 230 million over the next five years to upgrade the system. The GOAM is also involved, with World Bank assistance, in a small-scale railroad rehabilitation project, which includes improvements to nine railroad bridges along the Yerevan-Tbilisi route.

NEW MOBILE PHONE OPERATOR

¶9. (C) Sargsian noted that a tender was awarded recently to a third mobile phone operator, the French company Orange. It joins Armentel (now a Beeline subsidiary) and VivaCell (MTS), both now under Russian ownership. The company has not received a final license yet, but Sargsian asserted that the company's presence has already shaken up the market. (Note: While the Ministry of Transport and Communication managed the tender process, the telecoms industry is regulated by the independent Public Services Regulatory Commission. End Note).

OVERSIGHT OF POSTAL SYSTEM

¶10. (C) The Ministry is also responsible for oversight of the national postal system--HayPost--in terms of policy development, legal and legislative issues. HayPost has been operated for nearly two years by PostBank, a Dutch (and now Argentine-owned) firm that was awarded a tender to operate and reform an often-corrupt and dysfunctional agency. HayPost's Dutch CEO, Hans Boon, was assaulted in Yerevan in July and again, much more seriously, on October 10. While aware of the incidents, Sargsian indicated no knowledge of whether these attacks were business-related, and no such official claim has been made. (NOTE: Boon has since submitted his resignation from Haypost, from his medevac in The Netherlands. END NOTE)

COMMENT

¶11. (C) With the exception of the MCC Compact, the Embassy has relatively little interaction with Sargsian and his ministry. We are favorably impressed with the projects his ministry is undertaking and generally agree with the priority being placed upon development of transportation infrastructure. The possibility of an opening to Turkey as well as the proposed road to Batumi seem especially promising for Armenia's economic development. Sargsian is in a difficult position regarding the status of MCC funding, which will have a significant impact on the projects his ministry is able to undertake, but the continuation of which he is in a weak position to influence. Nonetheless, we want to be as clear with the implementing ministries of MCC programs --

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creating a constituency of those who potentially have a lot to lose -- as well as with the political leadership, which is more directly able to address the failing Ruling Justly indicators. End Comment.
YOVANOVITCH